

Illinois LDC Perspective on Gas Supply

Illinois Commerce Commission 2020-2021 Winter Preparedness Policy Session

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Introduction

Statements in this report are generally indicative of the following Illinois utilities:

- Ameren Illinois
- MidAmerican Energy Company
- Nicor Gas
- North Shore Gas
- Peoples Gas



Executive Summary

- Primary objective is to provide safe and reliable long-term service to our customers utilizing a “best-cost” gas purchasing strategy.
- Gas supply acquisitions, price hedging, and storage injections were completed as planned prior to the start of the winter season.
- Expect customer usage this winter season slightly higher than last year if overall average a normal winter.
 - 75% of annual customer usage typically occurs during the heating season.
 - Natural gas usage is highly dependent on temperature.
 - Overall winter 2019/2020 was approximately 4% warmer than normal.
 - Following a significantly colder than normal November, December through March were warmer than normal.
 - '20'21 Winter weather forecasts are varied; so what will this winter bring?
- Pricing
 - The mild winter of 2019/2020 drove prices under \$2.00, while the winter 2020/2021 futures strip is trading over \$3.00.
 - U.S. Storage inventories are historically high, and renewables have a larger share of the market, while, natural gas production is down.
 - Hedging, storage and other factors will help mitigate rate impacts from continued volatile prices due to changing weather forecasts, consumption, production and storage levels.

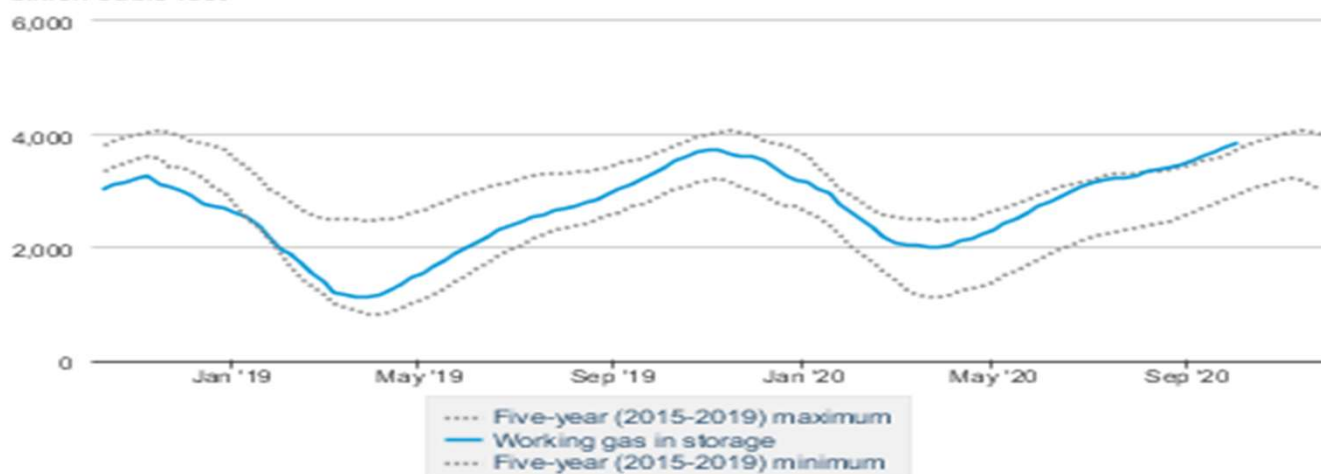
Gas Supply Strategy

- 100% of firm gas supply requirements for winter periods purchased under firm contracts from reliable, credit worthy producers and marketers.
 - Seasonal baseload and peaking supply purchases to ensure reliability.
 - Daily spot market transactions to optimize available resources.
- Firm interstate pipeline capacity secured to major market hubs and/or production basins.
 - Long-term contracts with right of first refusal.
- Owned and contracted storage on track to be at planned levels to serve peak heating season demand.
 - Illinois utilities target 30-50% of normal winter gas supply to be provided from storage.
- Price hedging for winter 2020/2021 is complete.
 - Hedge plans of Illinois utilities target 50-75% of normal winter demand.
 - Financial and physical hedge transactions executed over a 12-48 month horizon prior to winter; layer-in hedge positions to “dollar-cost-average”.

U.S. Natural Gas Storage Inventories

Working natural gas in underground storage

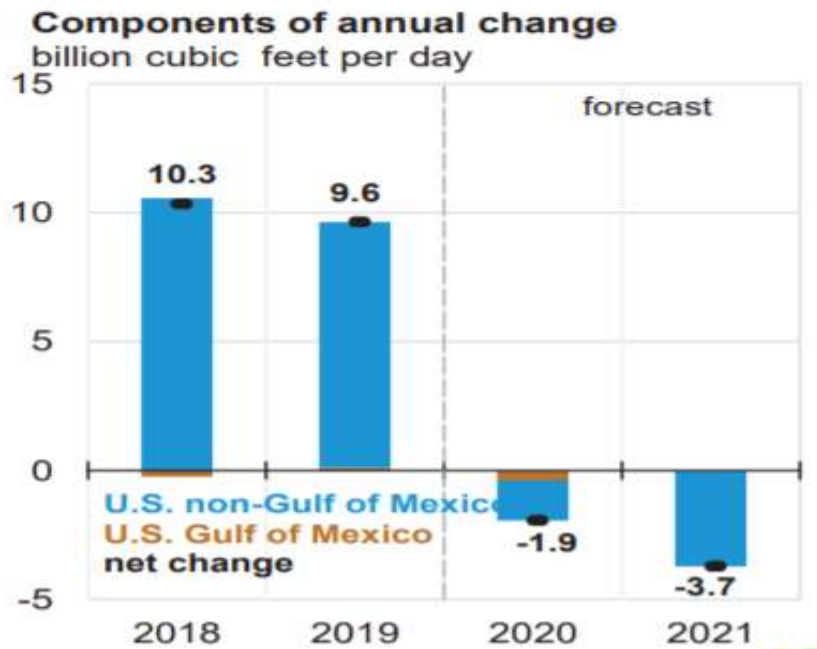
billion cubic feet



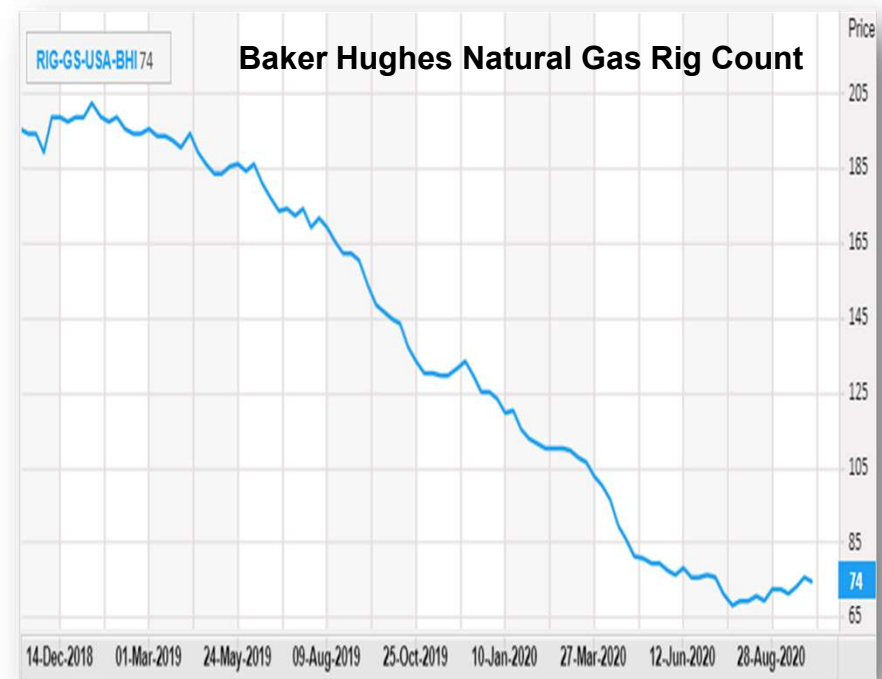
Source: Form EIA-912, Weekly Underground Natural Gas Storage Report

- Working gas in storage was 3,831 Bcf as of Friday, October 10, 2020, according to EIA estimates.
 - 444 Bcf (13%) higher than last year and 394 Bcf (11%) above the five-year average.
- The EIA forecasts storage to reach 3,970 Bcf by the end of the injection season
 - 5-Year Average 3,754 Bcf

U.S. Natural Gas Production



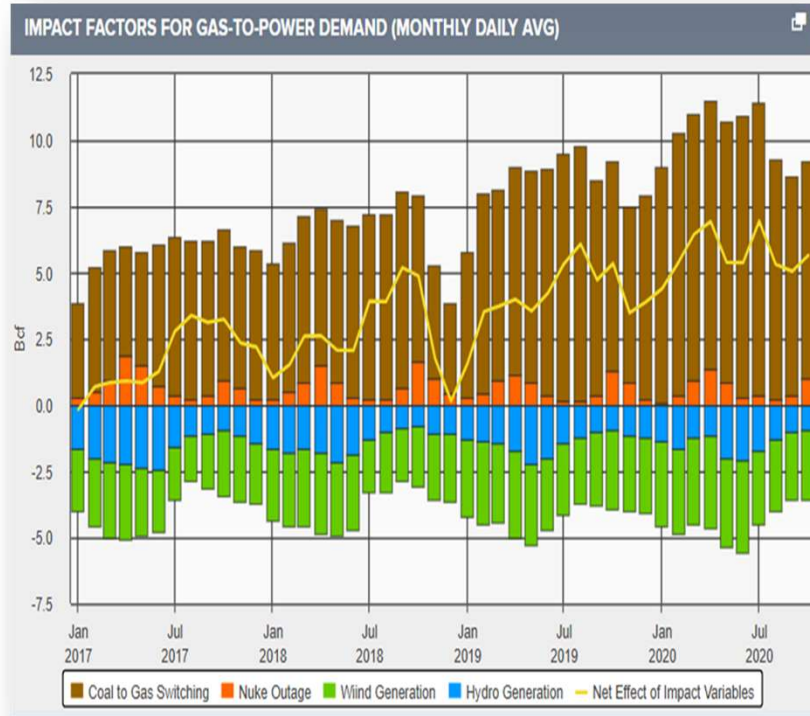
Source: EIA



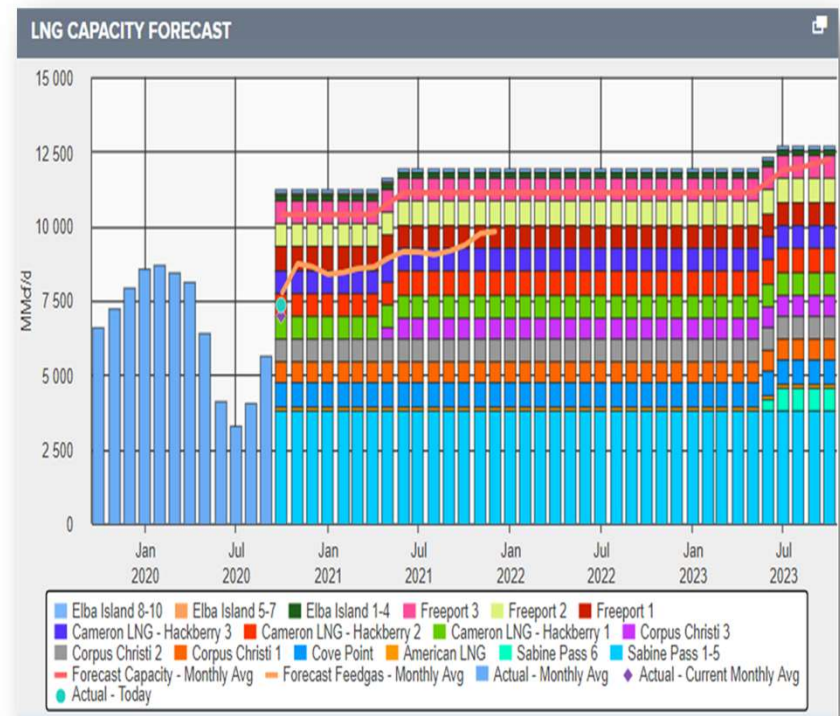
Source: Baker Hughes

- EIA forecasts U.S. dry natural gas production will average 90.6 Bcf/d in 2020, down from an average of 93.1 Bcf/d in 2019
- Monthly average production falls from a record 97.0 Bcf/d in December 2019 to a forecasted level of 85.9 Bcf/d by May 2021
- EIA's forecast of dry natural gas production in the United States averages 86.8 Bcf/d in 2021

Market Drivers



Source: Reuters

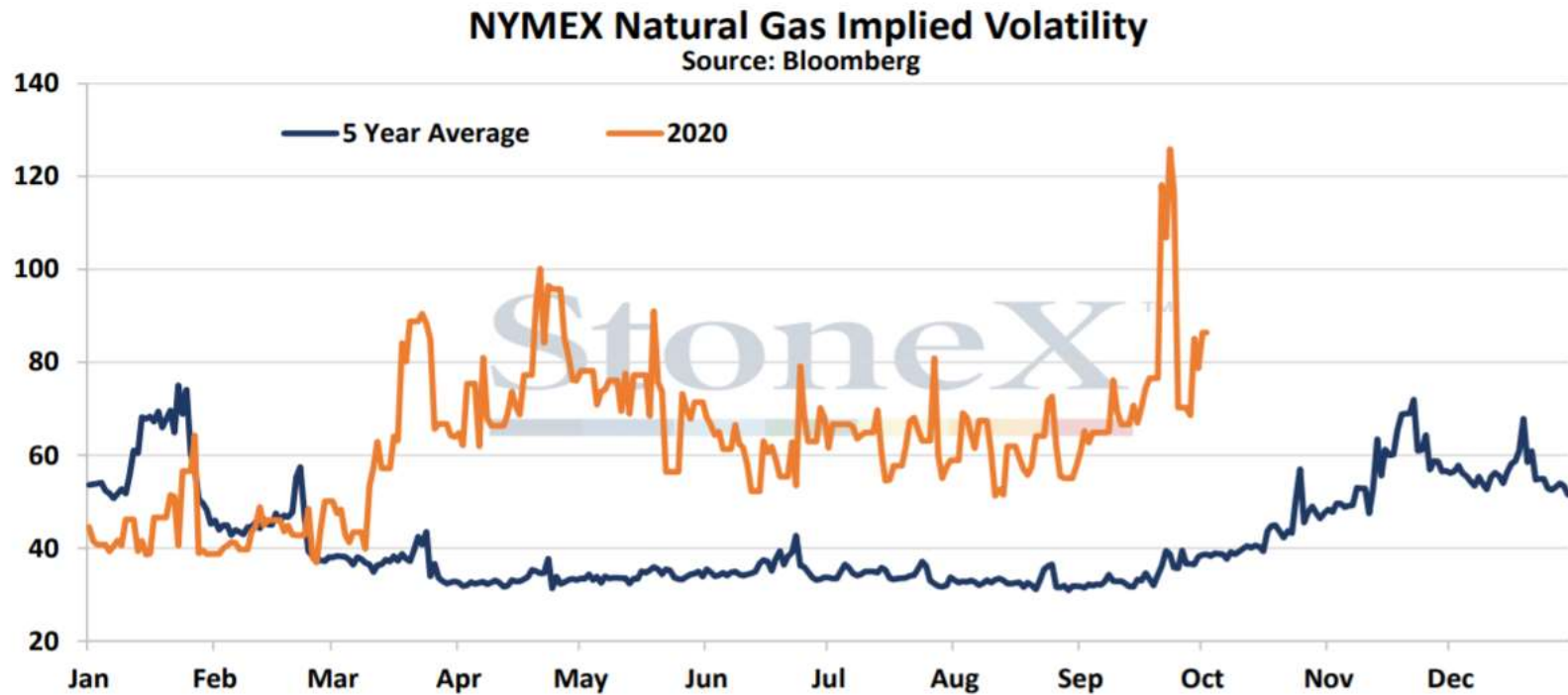


Source: Reuters

- Lower market prices cause a greater switch from coal to natural gas.
- EIA forecasts LNG exports will average more than 9.0 Bcf/d from December 2020 through February 2021

Natural Gas Price Volatility

- Since the end of the 2019/20 warm winter, natural gas implied price volatility has been consistently double the 5-year average



Natural Gas Winter Price Trend – Volatility!



Post-Summer Low in Red/Pre-Winter Low In Blue

Winter 2019/2020 System Send-out (MMBtu)

	<u>High Day</u>	<u>Low Day</u>	<u>Average Day</u>
Nicor Gas	3,509,703	1,068,475	2,126,818
Ameren IL	1,183,609	323,025	698,640
Peoples Gas	1,295,290	394,801	787,433
North Shore	279,074	77,706	159,417
MidAmerican	103,179	17,266	53,503
Total	6,370,855	1,881,273	3,825,811

2020/2021 Forecasted Peak Design Day and Resources (MMBtu)

	Projected Design Day <u>Send-out *</u>	Pipeline Transport & <u>Storage</u>	On-system Storage (Including LNG)	Expected 3rd Party <u>Deliveries</u>
Nicor Gas	5,518,900	2,401,900	2,550,000	567,000
Ameren IL	1,673,192	711,005	558,759	403,428
Peoples Gas	2,086,333	909,752	987,363	189,218
North Shore	461,772	396,854	20,000	44,918
MidAmerican	125,171	91,053	12,914	21,204
Total	9,865,368	4,510,564	4,129,036	1,225,768

* Includes reserve margin

Winter Season Outlook

- Gas supply acquisition and price hedging are complete with storage injections on schedule for the winter season.
- US production is down 6 Bcf/d from last year
- LNG exports are expected to continue to increase.
- Price will continue to drive gas's share of thermal generation – weak pricing leads to increased gas fired power demand
- The LDC's will continue to monitor the supply and demand markets for possible impact from the pandemic